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UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

In re NEW YORK CITY OFF-TRACK BETTING CORPORATION, Debtor.[1]	Chapter 9 Case No. 09-17121 (MG)

REPLY OF NEW YORK CITY OFF-TRACK BETTING CORPORATION TO DISCLOSURE STATEMENT OBJECTIONS OF CATSKILL OFF-TRACK BETTING CORP. AND STANDARDBRED OWNERS ASSOCIATION, INC.

INTRODUCTION

Two objections were filed to the Disclosure Statement in Connection with New York City Off-Track Betting Corporation's ("NYC OTB") Plan of Debt Adjustment Under Chapter 9 Dated November 5, 2010 (Docket No. 194), one by Standardbred Owners Association, Inc. ("SOA") (Docket No. 211) and one by Catskill Off-Track Betting Corp. ("Catskill OTB") (Docket No. 212).

[1] New York City Off-Track Betting Corporation's address is 1501 Broadway, New York, NY 10036. New York City Off-Track Betting Corporation's tax identification number is 13-2664509.

In response to the Objections and in connection with further negotiations and refinements to the Plan and the Disclosure Statement, NYC OTB is filing, concurrently with this Reply, a First Amended Debt Adjustment Plan, dated November 29, 2010, and a revised Disclosure Statement in Connection with the First Amended Plan (the "Revised Disclosure Statement"). NYC OTB also intends to file before the hearing on the approval of the Disclosure Statement a copy of the Legislation, as defined in the Plan, as it is expected to be introduced in the New York State Legislature during its Special Session that begins on November 29, 2010.

1. Reply to Standardbred Owners Association Objection

In cooperation with its Official Committee of Unsecured Creditors (the "Committee"), NYC OTB defers to the Committee for its reply to the SOA Objection.

NYC OTB questions, however, SOA's standing to object to the Disclosure Statement. SOA asserts that it is a party in interest (SOA Obj. at 1), but admits that NYC OTB is not a party to the contract that SOA claims as the basis for its Objection (SOA Obj. at 2, ¶ 2.) and alleges no facts that would support its standing as a party in interest with respect to the adequacy of disclosure to creditors who are to be solicited to accept the Plan. See 11 U.S.C. § 1109(b) ("A party in interest, including the debtor, the trustee, a creditors' committee, an equity security holders' committee, a creditor, an equity security holder, or any indenture trustee, may raise and may appear and be heard"). Indeed, SOA does not even assert a disclosure objection. Its only objection is to the Plan's confirmability. NYC OTB does not now challenge SOA's standing to object to confirmation. That issue, as well as the confirmation issue that SOA raises, are issues to be resolved at confirmation. The cases on which SOA relies for the unremarkable proposition that a court should not approve a disclosure statement that describes a plan that is unconfirmable on its face all involve objections by creditors who were clearly parties in interest in the case and had clear standing to object at the disclosure statement hearing. They do not apply to SOA here. Accordingly, SOA's objection should be overruled, without prejudice to raising it at the confirmation hearing.

2. Reply to Catskill OTB's Objection

Catskill OTB raises two principal objections: the Disclosure Statement does not contain or describe a valuation of NYC OTB's Account Deposit Wagering ("ADW") business, and the Disclosure Statement does not describe clearly which claims are in Class 3.

A. Valuation Objection

The Revised Disclosure Statement contains NYC OTB's estimate of the value of the ADW business. The valuation and its effect on distributions is reflected in the Revised Disclosure Statement. As Catskill OTB suggests, once a valuation is disclosed, its objection is directed more to confirmation than disclosure. NYC OTB intends to present expert testimony on the valuation of the ADW business at the confirmation hearing if there is any confirmation objection that would require it.

Catskill OTB's valuation objection also complains of the failure to make public a "'Confidential' document or term sheet … that purportedly sets forth the terms and conditions of the Plan and the Debtor's belief as to the valuation of assets to be transferred as part of the Plan." (Catskill OTB Obj. at 3, ¶ 9.) NYC OTB has no objection to the disclosure of the term sheet. It is attached as Exhibit A to this Reply. It embodied the initial agreement between NYC OTB and the Committee on a plan. It has, of course, been superseded by the Plan. All of its terms are incorporated in the Plan, except those that were modified by agreement between NYC OTB and the Committee either to clarify issues, correct errors or revise the agreement to reflect further negotiations or understandings between the parties, as is common in the transition from a term sheet to a binding document.

Catskill OTB's valuation objection also asserts that a valuation alone, and even disclosure of the previously undisclosed term sheet, are not enough, that "the Court should, in connection with any hearing on confirmation or before, hold a hearing on the sale of the ADW assets and permit the submission of higher and better offers for the ADW assets from other parties, such as Catskill. This would serve to establish the actual value of the ADW assets to be transferred." (Catskill OTB Obj. at 4, ¶ 11.) As the Objection itself notes by suggesting deferral to the confirmation hearing, this is not a Disclosure Statement issue. Moreover, section 1125(b) states, "The court may approve a disclosure statement without a valuation of the debtor".

More important, however, such a suggestion is inconsistent with both New York State racing law and with the Bankruptcy Code. Pari-mutuel wagering is heavily regulated by statute in New York and may be conducted only where State law so authorizes. Thus, any auction of the sort that Catskill OTB suggests must be in compliance with New York law, thereby limiting the number of potential entities who could acquire the ADW business and therefore bid for it at an auction. New York State Racing, Pari-mutuel Wagering and Breeding Law section 1012 authorizes any New York regional off-track betting corporation to maintain telephone betting accounts, suggesting that any of the regional off-track betting corporations could bid at an auction of NYC OTB's ADW business. However, the legislation whose enactment is a condition to the Effective Date of the Plan requires that NYC OTB's ADW business and all the customer accounts associated with the ADW business be transferred to a new corporation, New York Racing Network, Inc., which is created by the legislation and is to be owned by the NY Tracks (as defined in the Plan) who hold Class 3 Claims.

Section 903 of the Bankruptcy Code provides that chapter 9 "does not limit or impair the power of a State to control, by legislation or otherwise, a municipality of or in such State in the exercise of the political or governmental powers of such municipality". Chapter 9 thus does not grant the bankruptcy court power to effect a transfer of a portion of the debtor's business in a manner that is inconsistent with State law. If the legislation passes, then an auction could not determine the disposition of NYC OTB's ADW business. If the legislation does not pass, then the Plan's Effective Date cannot occur for several reasons, not just the absence of authority to transfer the ADW business, and the disposition of NYC OTB's ADW business must be reconsidered either as part of development of a new plan or in addressing NYC OTB's ultimate fate. In either event, an auction "in connection with any hearing on confirmation or before", as Catskill OTB suggests, would not have any effect on the resolution of this case or the disposition of the ADW business. For that reason, Catskill OTB's suggestion should be rejected.

B. Classification Description Objection

Catskill OTB's second objection revolves around the Disclosure Statement's description of Class 3. The Plan defines Class 3 as:

> "each Allowed Claim against the Debtor that arose on or before the Effective Date and that is prescribed by statute or rule or regulation or contract based on, or is otherwise determined by reference to, the Handle or any wagers, winnings, betting surcharge or the like and that is held by a NY Track, including any Pari-mutuel Pool Obligation owing to a NY Track." (Plan § II.B.3.) (emphasis added)

NY Track is defined as:

> "Yonkers Racing Corporation, Empire Resorts, Inc., Monticello Raceway Management, Inc. and Monticello Raceway, Finger Lakes Racing Association, Inc., Vernon Downs and Tioga Downs and NYRA." (Plan § I.A.45.)

Notably, neither Catskill OTB nor any other off-track betting corporation or New York State track is included in the definition of "NY Tracks". The Plan defines Class 6 as:

> "each Allowed Claim against the Debtor that arose on or before the Effective Date and that is not an Administrative Claim, a Class 1 Claim, a Class 2 Claim, a Class 3 Claim, a Class 4 Claim or a Class 5 Claim". (Plan § II.B.6.)

From these definitions, it should be clear that any claim by Catskill OTB is included in Class 6, not Class 3, and NYC OTB does not understand how either the definition of Class 3 or of NY Tracks is ambiguous. (Catskill OTB Obj. at 5, ¶ 15.)

Catskill OTB's objection does point out a potential ambiguity, however, in the relevant provision in the Disclosure Statement, on page 25, in the Disclosure Statement's use of the words "off-track betting locations". Accordingly, NYC OTB has revised the relevant paragraph in the Revised Disclosure Statement.

CONCLUSION

For all of the foregoing reasons and based on the Revised Disclosure Statement, this Court should grant NYC OTB's motion to approve the Disclosure Statement and solicitation procedures.

Dated: New York, New York
November 29, 2010

CRAVATH, SWAINE & MOORE LLP

By : /s/

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EXHIBIT A
TERM SHEET

NYC OTB Plan Term Sheet

October 15, 2010

SATISFACTION OF PRE-PETITION AND POST PETITION UNSECURED CLAIMS:

- NYC OTB will work with the tracks represented on the UCC to transfer its ADW operations to that group ("Track ADW"). The existing employees would be terminated. NYC OTB shall retain the ability of NYC OTB bettors to move their funds at the branches.

- NYC OTB shall not operate an ADW business, nor shall it affiliate with any ADW provider other than Track ADW. OTB shall have the right to enter into joint ventures or management agreements with Track ADW for the operation of parlors or restaurants; provided, however, that any such right shall be subordinate and subject to any right of first refusal granted to an individual racetrack herein.

- Track ADW customers shall have the option of making deposits, withdrawals, and wagers at OTB parlors from their Track ADW accounts, and OTB parlors shall prominently display offers to sign-up for new Track ADW accounts.

- In exchange for allowing ADW customer's continued access to service their accounts at its branch network, NYC OTB would receive (i) a 0.25% administrative fee per transaction for administering deposit & withdrawal activity up to a maximum of $10 per transaction and (ii) a 2% fee for betting transactions performed on NYC OTB terminals up to a maximum of $10 per transaction (collectively, the "OTB Transaction Fees").

- All wagers on in-state tracks placed with the NewCo ADW will be treated as if those bets were placed at each individual racetrack. The amount paid to the in-state racetrack on which such bet was placed shall be reduced by (i) an amount equal to 1% of the amount wagered (that shall be used to pay management fees) and (ii) all applicable OTB Transaction Fees. The distribution calculation cannot be modified except by a vote of greater than $66^{2}/_{3}$% of the equity interests in Newco ADW.

- For all wagers on out-of-state racetracks accepted by the Newco ADW, all in-direct purse commissions will remain at historical NYC OTB statutory levels and will be considered as expenses of the Newco ADW before any equity distribution.

- The ADW transfer would be in satisfaction of all pre and post petition claims by the tracks with ownership on a pro rata basis, based on prepetition and postpetition claims satisfied by the ADW transfer.

- There will be a small amount of cash available to satisfy the other pre and post petition claims of other unsecured creditors who do not wish to be part of the ongoing Track ADW. Our current estimates for these amounts are included in this report.

RESTRUCTURING OF NYC OTB OPERATIONS:

- NYC OTB has completed the planned and approved closure of its unprofitable locations. There are approximately 50 branch locations remaining and those will be maintained. NYC OTB will seek to renegotiate more favorable lease terms on those locations.

- NYC OTB's annual budgets must be balanced and independently reviewed by [the Director of the State Budget / or OTB Financial Control Board].

- NYC OTB will make moderate investments in a handful of those locations where it is clear that handle can be increased (for example, expansion in some locations that are currently crowded due to previous branch closures nearby). The intent of NYC OTB will be to slow the rate of handle decline at those remaining locations.

- NYC OTB will seek private industry partners to build a new prototype location similar to Woodbridge. Any racetrack within 30 miles of the proposed location will have the right of first refusal to be the financial partner with OTB on this and any other similar facility that is proposed and built. If more than one track is located within 30 miles, both tracks will have the right of first refusal and may partner together.

- The overhead of NYC OTB will be substantially reduced with the elimination of roughly 400 positions (including the ADW referred to above).

- Remaining overhead will exist to serve the daily needs of the ongoing branches (security, supplies, reporting) and to make investments in new handle prototypes. NYC OTB will seek to outsource certain overhead functions required by the branches.

- In addition, NYC OTB is getting estimates from qualified tote companies to upgrade all existing machines and service those machines going forward (which will also require us to eliminate the IBEW Local 3 contract). NYC OTB welcomes any tracks that wish to participate in that tote upgrade and service contract.

- NYC OTB will reduce its space requirements to no more than half of the existing space at 1501 Broadway and the Maspeth warehouse.

- NYC OTB will agree to a “New York First” type of proposal wherein we feature New York racing product. Other than on major event dates (triple crown, breeders cup, etc.), NYC OTB will carry all operating in-state tracks and will feature these events on the largest screens available in the parlors. NYC OTB will also reduce the number of out-of-state signals historically broadcast in the parlors.

- NYC OTB will fund a targeted voluntary severance program for employees that are displaced by the overhead reduction.

- Upon the effective date of its Chapter 9 plan, NYC OTB will no longer be required to deposit funds into the Segregated Account and will pay its general operating expenses in the ordinary course of business.

- Legislatively determine that the accrued OPEB liabilities on the NYC OTB balance sheet are liabilities of the City of New York.

UNION ISSUES:

- NYC OTB resolved these issues separately with the Unions.

GOVERNANCE:

NYC OTB will be governed by an expanded board of directors that will include harness track, thoroughbred track and union representation.

REQUIRED LEGISLATIVE CHANGES: NYC OTB will obtain the following changes to existing legislation, which will not include any change to any statute that requires NYC OTB to pay to any New York track represented on the the Creditors' Committee any commissions for wagering accepted by NYC OTB on races at that track (i.e., "dailies"). Moreover, the Creditors' Committee's support for this proposal is contingent upon receiving all legislative changes contained herein.

A. INDUSTRY CONCESSIONS

1. The racing industry agrees to the elimination of all Dark Day and Maintenance of Effort payments from NYC OTB only.

2. A reduction in the indirect commissions paid to in state tracks from NYC OTB only on the following basis:

	NYC OTB Holdback
Year 1	50%
Year 2	40%
Year 3	30%
*Year 4 and beyond	20%

*The remaining 20% holdback will go to 10% if annual handle is between $600 million and $620 million, and will go to zero in any year where the annual handle exceeds $620 million.

3. NYC OTB will receive a 50% reduction in all state pari-mutuel tax rate for two years. After 2 years, the holdback can be reduced as the following handle levels are achieved:

For Year Ending Handle	NYC OTB Holdback Reduction
610m-615m	15%
616m-620m	25%
621m-629m	50%
630m-635m	65%
636m-640m	85%
641m and up	100%

4. NYC OTB will retain all un-cashed tickets as of April 1, 2010 that were previously escheated to the state and all future uncashed tickets.

B. INDUSTRY REQUESTS.

5. Reduce NYC OTB payments to the harness breeding fund to the same % levels as the thoroughbred breeders.

6. Legislatively permit Monticello Raceway Management, Inc., Tioga Downs and Vernon [need correct names] to offer subsidized (i.e., nontaxable) promotional credits to their customers up to 10.0% of the total revenue wagered on their video lottery terminals at the vendor track after payout for prizes. Legislative permit the operator of video lottery terminals at Aqueduct Raceway to offer subsidized (i.e., nontaxable) promotional credits to their customers up to 7.5% of the total revenue wagered on their video lottery terminals at the vendor track after payout for prizes. All other racinos in New York State are permitted to offer subsidized (i.e., nontaxable) promotional credits to their customers up to 7.5% of the total revenue wagered at the vendor track after payout for prizes. Enabling this benefit will promote higher gaming revenues and increased revenue streams to the State. Further, this initiative will allow the racetracks to better compete

with local competitors (that pay little or no gaming taxes to the State) and out-of-state competition.

7. Eliminate any VLT Capital Improvement Fund co-investment requirement for racetracks that now or in the future have more than 1,100 video gaming machines so these facilities can reinvest in additional amenities and expanded gaming space in order to drive additional VGM revenues for the State. Effective on and after May 1, 2012, Monticello Raceway Management, Inc. ("MMRI") shall be eligible for a vendor's capital award of 1.5% of the total revenue from wagering on its video lottery terminals at its facility after payout for prizes, but upon relocation, if any, of its facility from the real property currently owned by MMRI in Monticello, N.Y., it will no longer be eligible for this vendor's capital award.

8. Enact legislation that would require NYC OTB to offer all NY Racetracks the opportunity to join their out-of-state racing simulcasting contracts if individual NY racetracks choose to do so, but the NY racetracks joining a contract would be responsible for any resulting increase in contract cost**.**

9. Adjust the minimum number of race dates for MMRI's harness track, Monticello Raceway, in Racing Law section 318(5) from 90% to 70% and in section 307(5-a) from 75% to 60% and from 100% to 80%.

10. NYC OTB will agree to legislation that will bar any future chapter 9 bankruptcy filings.

11. Yonkers Racing Corporation, Empire Resorts, Inc., Monticello Raceway Management, Inc. and Monticello Raceway, Finger Lakes Racing Association, Inc., Delaware North Companies, Delaware North Companies Gaming & Entertainment, Inc., Vernon Downs and Tioga Downs and New York Racing Association (together, the "Tracks") and their respective officers, directors, employees, members, agents, affiliates, advisors and professionals (collectively, the "Track Parties") shall not have any liability or obligation to any person or entity for any act or omission in connection with or arising out of (i) the negotiation of a restructuring of NYC OTB's business and operations, (ii) the operation of NYC OTB's business prior to the effective date of a Chapter 9 plan; (iii) the pursuit of approval and consummation of a Chapter 9 plan, (iv) the transactions contemplated thereunder, (v) the property to be distributed thereunder, or (vi) the claims or other obligations extinguished or impaired thereunder, including, but not limited to, any deficiency in contributions to purses that arises out of NYC OTB's failure to pay the prepetition or post-petition claims of the Tracks, whether such contributions are required by statute or contract. Any and all claims relating to or based on any acts or omission in connection with or arising out of items (i) through (vi) shall be referred to herein as "Restructuring Claims".

    Any Chapter 9 plan filed by NYC OTB and any proposed order confirming such plan shall provide (i) for a release and exculpation of the Members of the Creditors Committee from any and all Restructuring Claims; and (ii) for an injunction permanently enjoining the commencement by any person or entity, whether directly, derivatively, or otherwise, against the Members of the Creditors Committee of any claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action or liabilities released under the Chapter 9 plan.

12. NYC OTB agrees to legislation that would provide the following specific events of default:

    a. Failure to make payment of any commissions due to the tracks within 60 days of the last day of the month in which the commissions accrued, with an additional 30 day cure period available to NYC OTB;

    b. Failure to achieve positive EBIDTA in any two consecutive fiscal years;

c. Failure to have a balanced budget reviewed by the [the Director of the State Budget]/[the NYC OTB Financial Control Board] in any fiscal year.

NYC OTB will agree to the following specific statutory relief in the event of one or more defaults outlined above:

> Management of NYC OTB will be assumed by the NewCo ADW. NYRA and Yonkers Racing Corporation will be jointly responsible for the management of NYC OTB on behalf of the NewCo ADW and will not receive compensation of any kind for their services.

Notwithstanding this provision, NYC OTB will continue to be governed and owned in a form consistent with governance and ownership existing at the time of the transfer of management.

13. This Term Sheet is subject to definitive documentation, including, but not limited to a Plan of Adjustment which must be confirmed and effective no later than December 31, 2010.